

THE PENSION COMMISSION OF MANITOBA
PROPOSALS FOR AMENDMENTS TO THE PENSION BENEFITS ACT

Introduction

The Pension Benefits Act of Manitoba came into effect on July 1, 1976. The Act established the Pension Commission of Manitoba as an independent body, appointed by the Lieutenant Governor in Council, whose responsibility, amongst other things, is to "actively promote the establishment, extension and improvement of pension plans throughout Manitoba ...". The Commission is currently made up of the following members:

Mr. John Corp, Chairperson
Ms Jean Minish, Vice-Chairperson
Mr. William Battershill
Ms Georgia Cordes
Mr. George Enns
Mr. John Friesen
Professor John Hofley
Ms Marilyn Thompson
Mr. George Yurchak

In September of 1982, the government of the Province of Manitoba invited the Commission to review the current legislation and to make recommendations regarding changes having regard to the many reports published on the subject of pension reform in the last few years.

The Commission has reviewed the major issues concerning pension reform and developed 24 proposed recommendations concerning pension reform for employment pension plans. The issues have been grouped into the following major areas:

A. Changes With Little or No Cost

1. Portability;
2. Participation and Eligibility;
3. Plan Termination;
4. Plan Surpluses;
5. Time Limits on Remittance of Employer Contributions;
6. Time Limit on Filing of Actuarial Reports;
7. Investments;
8. Termination Refunds;
9. Division of Rights on Marriage Breakdown;

10. Multi-Employer Pension plans;
11. Survivors Benefits;
12. Disclosure;
13. Joint Representation on Administrative Body;
14. Funding;
15. Women and Employment Pensions;
16. Offset Integration;
17. Compulsory Retirement Age;

B. Benefits On Termination of Employment

18. Rate of Interest on Employee Contributions;
19. Vesting;
20. Value of Deferred Benefit;
21. Locking-in;

C. Protection against Inflation

22. Proposed Method;
23. Permitted Alternatives;
24. Voluntary Employer Pension Plan.

The proposals do include some technical terms and a glossary of such terms is appended.

It should be stressed that these proposals are not yet, and may not necessarily become, government policy. Indeed before taking them to government, the Commission invites responses from the public either in writing or verbally at a series of public meetings to be held

We look forward to your response.

Pension Commission of Manitoba
1004 - 401 York Avenue
Winnipeg, Manitoba
R3C 0V8
Telephone: 204-944-2740

A. CHANGES WITH LITTLE OR NO COST

A. Changes With Little or No Cost

Portability:

Recommendation 1:

The legislation should be amended to provide that no pension plan prohibits the right of an employee to the portability of his or her pension credits. In addition, portability would be allowed by the following mechanisms:

1. Transfer to a locked-in R.R.S.P.; or
2. Transfer to a locked-in retirement account (LIRA) as proposed by C.A.P.S.A.; or
3. Transfer to a pension plan of a new employer where such a plan allows for acceptance of such a transfer; or
4. Leave the pension credits in the plan of the present employer.

The economic impacts of this proposal to all plan sponsors both in the public and private sector would be minimal.

Participation and Eligibility:

Many problems presently exist with the level of employee participation in pension plans. Many employees do not presently participate in a pension plan in their workplace, even if it exists. This may be due to either a voluntary action on the part of the employee, or a contractual exclusion under the eligibility requirements of the pension plan. As well, almost all pension plans exclude part-time workers.

Recommendation 2:

A new section should be added to the Act to provide for a compulsory membership for all employees who have access to a pension plan at their workplace, based on the employee meeting certain minimum eligibility requirements as prescribed by the legislation. Such requirements should be the same for both males and females. Eligibility requirements prescribed should be: the attainment of age 25 (subject to Human Rights legislation) and the completion of 2 years of service. Plans would be open to adopt other eligibility rules which would result in earlier plan membership if they so desired.

The Commission recommends that the definitions of employee, continuous service, and the temporary suspension of employment be amended to encompass part-time employees. These definitions should take the following form:

1. " Employee " means an individual who performs a service in Manitoba or designated province under a contract of service such as apprenticeship, and includes an officer or director of a corporation or of an unincorporated organization or an agent acting for this principal on a substantially full-time basis and further includes those individuals who over a period of two years, remain within the employ of the employer whether or not they are considered full-time, part-time, casual, temporary, or temporary contract employees.
2. " Temporary suspension of employment " shall mean a period not to exceed 26 consecutive weeks (6 months).
3. A new definition should also be added to include service such as pregnancy leave, adoptive parent leave, and other authorized leave as continuous service.

The direct economic impact of such a change would depend on the type of plan. The major cost implication would be due to the fact that plan sponsors have to contribute on behalf of the member at an earlier age, or on behalf of employees who are currently not eligible.

Plan Termination:

Upon the wind-up of a pension plan, no clear ranking of the priorities for the claims is set out in the Pension Benefits Act or its regulations. In the event of a plan wind-up, an actuarial report is required to be prepared on the assets of the plan. This report will set out the funded status of the plan as to surpluses and/or liabilities. Current legislation makes no provisions as to the distribution of surpluses and/or liabilities and this should be spelled out in the legislation.

Recommendation 3:

The actuary should value retired lives and active lives on a separate basis in fully funded plans. Those surpluses* attributable to the retired lives would then be used to purchase additional benefits for that group only on a pro-rata basis. The surpluses attributable to active members

would be allocated according to the following priorities: to fund the pension benefits for those members eligible for early retirement within the terms of the plan (should the individual choose to retire early); to fully fund those members subject to the locking-in requirements; and allocated among the remaining members.

In the case of plans, which are not fully funded, where the wind-up valuation reveals a liability (ie., insufficient funds to provide the promised benefits) such insufficiency is charged against the pension benefits. There currently exists no priority for this under the legislation. The legislation should be amended to provide that the existing monies be used to fully fund benefits in the following order:

1. Retired lives;
2. Those eligible for early retirement;
3. Those locked-in but not eligible for early retirement; and
4. All other plans members.

It is important to note that any pensions which would be provided should be done so through the purchase of annuities (either immediate or deferred) through the service of an insurance company and not by payment from the fund.

* NOTE: Surpluses would be valued as per the next recommendation regarding plan surpluses.

The Commission also recommends that the Act should be amended to provide that meaningful disclosure be made to all plan members individually, advising that in the event of a plan termination, whether voluntary or involuntary, those benefits promised but not funded by payments into the future will only be paid to the extent that they have been paid for at the date of plan termination. Such disclosure would occur each time a plan change occurs which may affect benefits.

There would be no economic costs related to these changes as all of the costs would be actuarial adjustments to pensions of various groups.

Plan Surpluses:

When defined benefit pension plans are being terminated due to either a company bankruptcy or by decree of the plan sponsor, the actuarial valuation conducted at the wind-up date often discloses surplus funds within the plan. These surpluses may result from a different set of assumptions being used in the actuarial process on a wind-up basis as opposed to an on-going basis. Generally speaking, when the actuarial valuation is done on a wind-up basis, the actuary assumes the current rate of interest in valuing the pension benefit credits. This will often result in a lower present value being placed on the pension benefit credits on a wind-up basis and will yield excess funds within the pension plan. Another factor which contributes to surplus funds is that the rate of interest being credited on employee contributions is substantially less than the actual earnings of the pension fund. These excess earnings will often account for additional surpluses. Under the current legislation, surpluses, often in the hundreds of thousands of dollars, are available for refund to the plan sponsor in the event of a plan termination.

Recommendation 4:

The legislation should be amended to provide that the surpluses within the pension funds must be ratioed between the employee contributions and the employer contributions and only those surpluses attributable to employer contributions would be available for use by the plan sponsor. The portion of the surplus attributable to the employee contributions must be used for the provision of additional pension benefit credits to both active and retired plan individuals.

There would be some economic impact to employers, since they would no longer be eligible to receive all of the surpluses upon wind-up of the plan.

Time Limits on Remittance of Employer Contributions:

While the Pension Benefits Act requires that the employees' contributions be remitted no later than 60 days from the date such contributions are deducted from an employee's pay, the employer payments do not have to be remitted until 120 days after the end of the fiscal year of the pension plan to which they relate. This can often result in a significant difference in earning power and, in the event of a bankruptcy or plan wind-up, it could result in as

much as 16 months of employer pension payments being delinquent.

Recommendation 5:

The Act should be amended to require that employer current service contributions be remitted to the fund or plan within the same time frame as employee contributions. This would also hold for non-contributory plans.

There would be an exception in the case of a profit-sharing pension plan where a portion of the employer current service payments is directly related to company profits. Under this type of plan, there is still a required employer contribution of not less than 1% of payroll. However, the balance of the employer contributions are related to profit which cannot be determined until after the end of the fiscal year. In this circumstance, the profit-sharing portion of the employer contributions should be required to be remitted to the fund no later than 6 months after the fiscal year to which they relate.

This change will not have a significant economic impact as employers would be budgeting for their pension expenses. There would be additional benefits to pension funds as additional interest would accrue to the earlier deposited monies.

Time Limit on Filing of Actuarial Reports:

The current legislation provides no time limits for the filing of actuarial reports. Current policy has established a deadline of 9 months after the fiscal year end of the pension plan and most plan sponsors seem to have little difficulty in complying with this deadline. However, there is no legislative provision that can be brought to bear to speed up this process, in those cases where there is a problem.

Recommendation 6:

The regulations should be amended to read " the employer shall file the report with the Commission upon its receipt together with such additional information as the Commission requires. Such report is to be filed no later than one year from the end of the fiscal period to which it relates".

There would be no economic impact with respect to this proposal.

Investments:

The section of the regulations regarding investments specifies the extent to which plan sponsors are allowed to diversify investments in other areas not specified under the existing legislation. This is termed the "basket-clause" and the limit currently imposed is 7% of the total assets of the fund. This is generally considered too restrictive.

Recommendation 7:

The current limit under the regulations referred to as the "basket-clause" where plan sponsors are allowed to diversify their investments in other areas not specifically allowed for under the existing legislation, should be increased from 7% to 10% of the total assets of the fund.

In addition, a more in-depth study of additional changes which may be required for this area is recommended.

There would be no economic cost to this recommendation.

Termination Refunds:

Quite often, employees who have not received their refunds or their statement as to their entitlements several months after their termination from their place of employment will complain to the Pension Commission. This will usually be resolved by the Pension Commission. However, there is at present no requirement which spells out the time period as to when refunds or statements are required to be paid. In addition, there is no interest usually paid on the refunds being held pending their refund.

Recommendation 8:

1. The Act should be amended to require that plan sponsors ensure that the refunds are finalized within a specified period after the termination date (6 weeks is considered adequate).
2. The interest should be credited at a "specified rate" from the date of termination to the date of final settlement (this rate would be at the same rate as would be paid on the employee contributions) (see Interest on Contributions - Recommendation 19).

The economic impact of such a change would be minimal as the monies will be earning interest while they are in the fund, and there is therefore no real problem to credit interest from the time of termination to time of receipt of the refund cheque.

Division of Rights on Marriage Breakdown:

At present, the Marital Property Act defines pension credits as being part of the family assets thereby available for division upon termination of the marriage. The Pension Benefits Act however, fails to recognize this fact and in actuality, prohibits the division under Section 27 of the Act.

Recommendation 9:

An amendment should be made to Section 27 of the Act which will recognize pension credits as family assets within the meaning of the Marital Property Act together with new sections laying out guidelines as to the method for division of these credits. The methodology must consider the following: the timing of the division, commencement of payment, the valuation of pension credits (using a method devised by the Pension Commission), and transfer of the divided portion by the non-member spouse to a locked-in R.R.S.P. in his or her name. It is recommended that this change also apply to a common-law spouse as defined by family law. It is the Commission's view that division of such credits should be used to provide pension income only and not in the form of a cash refund or a trade-off against other family assets.

The basic direct costs of this would be nil although there would be some relatively small administrative costs which would be paid for by the plan sponsor.

Multi-Employer Pension Plans:

Multi-employer pension plans do not at present have uniform legislation. There is, in addition, no one particular employer who is responsible for the provisions of the legislation. There usually exists in its place a board of trustees or some similar body who is responsible for the operation of the plan. The current legislation fails to recognize the unique nature of these plans, which are of the negotiated type and involve additional administrative problems in the calculation of benefits and collection of contributions.

Recommendation 10:

Special rules and regulations should be implemented for multi-employer pension plans. In addition, the onus for plans under the Pension Benefits Act should be placed on the board of trustees, and that a distinctly separate section of the Pension Benefits Act be prepared which would deal with all legislative revisions for multi-employer pension plans.

The economic impact of this change would only arise from the specific rules and regulations such as earlier vesting, interest on employee contributions, etc., which are changes recommended for both the Pension Benefits Act in general and multi-employer plans in particular and would apply equally to both areas of these reforms were to take place.

Survivors Benefits:

Several problems exist with present pension plans with respect to survivor benefits. Many married pension plan members now have pensions which may cease upon their death. This is very often by choice (sometimes made in ignorance) and less often by contractual requirement. The result is that many surviving spouses are often faced with a sudden and dramatic drop in income and corresponding change in life style. Of course, in situations where both spouses have a pension, this situation may not arise. If the deceased spouse is not vested, his or her spouse is sometimes not entitled to any return of contributions with interest. In some circumstances, plan members who are entitled to a deferred pension (either by termination of employment or plan termination) lose all entitlement if they die during the deferral period. This is particularly true in the case of non-contributory pension plans.

Recommendation 11:

1. The standard form of pension at retirement should be a joint and survivor pension reducing to 2/3 on the pensioner's or spouse's death. This pension would be guaranteed for a minimum of 60 months. It would be required that the spouse sign a waiver if another option is selected.
2. Every plan should allow for a refund of the pensioner's own contributions with interest to the spouse or estate (if the employee was not vested at the time of their death).

3. Concerning deferred pensions, where an individual dies during a deferral period, the spouse may receive a pension payable immediately or in accordance with the terms of the plan. Alternatively, the commuted value of the member's pension could be transferred to a locked-in account to the credit of the spouse.
4. Survivor benefits should continue after remarriage.

The economic impact of this would be very little since at retirement, the normal form of pension provided by the plan would be actuarially adjusted to provide the standard form required by this recommendation.

Disclosure:

Many pension plan members are often not aware of their entitlements under a pension plan. The current legislation provides that the employee receive an annual statement which concerns only their total pension fund, but not their particular benefits, except upon termination of employment. This makes for poor communication between the plan sponsors and their members and can result in misinformation and misconceptions being formed. As well, statements that are provided are not standardized to any degree and may vary quite considerably.

Recommendation 12:

1. Section 21 of the regulations should be amended to require that the plan sponsor provide individual benefit statements to each employee as per the CAPSA (Canadian Association of Supervisory Authorities) report within 6 months after the plan year end. A copy of the CAPSA disclosure proposals is appended.
2. Also, an addendum be made to Section 25 of the Act to ensure a terminating or retiring employee receives a written statement of his or her options within 30 days of their termination or retirement. This is a minimum standard and, unless the decision to retire is made suddenly, the Commission believes that the options for the retiring employee should be provided well before retirement.

This would have very little cost since most major plans already provide individual statements and employers usually have a group listing provided by the plan administrator from which individual statements can be produced.

Joint Representation on Administrative Body:

A pension plan represents a substantial investment by each of its members

and the Commission feels that, if the membership wishes, they should have representatives on the body responsible for the administration of the plan.

Recommendation 13:

Upon request from a majority of the plan's members, a pension committee should be established. This committee should have equal representation from the plan sponsor and the plan membership including, where appropriate, a pensioner. This committee should monitor the administration of the plan in the following areas:

- (a) Day-to-day administration of the plan, including maintenance of the plan member data and benefit payments.
- (b) Maintenance of plan assets.
- (c) Investment of plan assets.
- (d) Pension plan documentation.
- (e) Interpretation of the plan rules.
- (f) Preparation of financial statements.
- (g) Assuring that actuarial valuations are performed.
- (h) Taking action in respect of information received from accountants and actuaries.
- (i) Completion of required government reports.
- (j) Issuance of relevant information to plan members in compliance with the legislated disclosure requirements.

This would have little cost implication to the plan sponsor.

Funding:

Perhaps the greatest concern with respect to pension plans is that of funding. Funding means accumulating sufficient dollars over an employee's working lifetime to provide an annuity at his or her retirement. Actuaries use a variety of funding methods which may produce wide differences in the reported financial position of the plan. While the Commission does not wish to dictate the method used by the actuary in giving advice to the plan sponsor, some actuarial methods do not permit a comparison of the actual plan assets with the value of the benefits which have accrued in respect of service to the valuation date. This comparison is necessary to determine the funded status in accordance with Section 1 (d) of the regulations.

Recommendation 14:

1. That every actuarial report filed with the Commission should

include a valuation balance sheet using the accrued benefit actuarial cost method with, where appropriate, salary projection, and indicate the normal actuarial cost using the same method.

2. Actuarial reports should be prepared in accordance with the Canadian Institute of Actuaries guidelines for the valuation of pension plans.

There would be little cost to plans as a result of this recommendation.

Women and Employment Pensions:

Since pension benefits must be taken in the form of life-time payments, life expectancies are the essential element in calculating their costs. Since women at age 65 have a life expectancy of 4 years longer than men, their pension upon retirement is reduced accordingly. Thus, it can be argued that women are not discriminated against if they are paid a lower pension upon retirement since they are expected to live longer and the pension paid "in the long run" to all women will average out to be the same for men. On the other hand, since the main purpose of a pension plan is to produce income in retirement, it can be argued that a plan should not provide different incomes depending on the sex of the members.

Recommendation 15:

That uni-sex mortality tables should be used in the calculation of pensions and pension options for the member and the surviving spouse; that all employees be required to contribute equally to buy the same pension benefits; and that women be entitled to the same pension benefits as men upon retirement (all other factors such as salary history and service being equal).

There would be no cost to this as the adjustments required would be actuarial reductions or increases in the pensions to be paid to the retirees.

Offset Integration:

Some pension plans allow that the person will have his or her pension reduced by any amount that would be received from Old Age Security. This may mean that benefits to which he or she are entitled are in fact not actually paid out.

Recommendation 16:

The Pension Benefits Act should be amended to prohibit existing plans from integrating and off-setting their pension benefits with Old Age Security. This recommendation would preclude the problem where an employee may have already in fact paid for his or her benefits but may not be eligible to receive those benefits already paid for. The Old Age Security payments are in fact payable on the basis of age and residence and are not meant to be employment related in any way.

There would be a small cost to those employers who are presently doing this.

Compulsory Retirement Age:

Legal limitations relating to mandatory retirement or dismissal are found in the Manitoba Human Rights legislation which prohibits discrimination based on age.

Recommendation 17:

1. Every plan should define an age at which pensions may start without actuarial adjustment.
2. The Pension Benefits Act should also be amended to require an option for all members of an employment pension plan to elect early retirement under the plan on an actuarially reduced basis after age 55.
3. In addition, the Pension Benefits Act should be amended to allow those plan members who continue to work after the age specified in recommendation 17 (1) to cease accruing benefits but obtain an actuarial increase in their pension at actual retirement, or to continue contributing to the plan and accrue further benefits with applicable actuarial increases.

The Commission recognized that there should be flexibility allowed in an individual's choice of retirement age. An actuarial reduction of the employee's pension upon earlier retirement in defined benefit plans would result in no increased pension costs to the employer. Mandatory retirement is not a pension issue as such. However, there should be no enrichment of the pension

fund at the expense of an employee who defers commencement of a pension. If pensions are fully accrued at an age earlier than that of actual retirement, pensions must be actuarially increased. The identification of a specified age or range of ages is necessary to give meaning to the benefit formula for plan members. Plans should be clear concerning continued membership following the specified pension age. Payments of both pension and salary in the case of employment after pension eligibility may be wasteful of pension resources.

All of the first seventeen recommendations would provide substantial improvement to the present state of pension legislation in Manitoba and at the same time, entail little additional costs to existing plans.

B. BENEFITS ON TERMINATION OF EMPLOYMENT

B. Benefits on Termination of Employment

The next four recommendations deal with benefits on termination of employment.

The Commission believes that an employee should build up a pension over the whole working career, rather than, as is so often the case, in the employee's last job prior to retirement. In order to achieve this, it will be necessary to make a number of significant legislative changes to ensure that the employee's contributions are credited with a reasonable rate of interest, that on termination from a plan, the employee's contributions and those of the employer stay locked-in to the pension system (although not necessarily in that plan), that there is some employer contribution to the termination benefit and that where the pension starts to be paid, it should be provided on a survivorship basis.

Rate of Interest on Employee Contributions:

Rates of interest credited to employee contributions have historically been much lower than those available in the market-place. Although in a defined benefit plan these low rates have no effect on the final pension, the benefit which members receive most often from a pension plan is the termination benefit which is usually a return of contributions with interest. This explains, to a large extent, a negative attitude to pension plans amongst plan participants.

Recommendation 18:

The rate of interest to be credited to employee contributions should bear some relationship to rates prevailing in the market in recent years. This should not, however, apply to money purchase plans where the rate of interest to be credited should depend on the fund performance. In money purchase plans, all of the investment income should be distributed to the members' contribution accounts.

Vesting:

In most other jurisdictions, vesting occurs after 10 years service. The Commission believes that, particularly in the current environment of a mobile labour force, this period should be significantly reduced. However, the Commission does not concur with the type of change made recently in Saskatchewan which provides for vesting after one year of service and when age plus service equals 45. Such a rule does not provide a significant improvement for the younger employees where mobility is likely to be greatest and it will tend to discriminate against those who take time out of the workforce in their 20's and 30's.

Recommendation 19:

Employees should become fully vested after 2 years of service with the employer.

Value of Deferred Benefit:

In many contributory defined benefit pension plans, a terminating employee is, in fact, funding most, if not all, of the deferred pension which he or she has earned under the plan formula. If this were permitted to continue, the improved vesting recommended above would be meaningless.

Recommendation 20:

The benefit on termination from the plan after vesting should be in the form of a deferred pension of which 50% must be provided by employer contributions. The Pension Commission will establish a standardized method for valuing deferred pensions and will publish tables for this purpose.

Locking-In:

In order to ensure the build-up of an employee's pension over his or her whole working career, it is necessary to lock-in contributions. At the same time, it would be costly and inefficient to require that the contributions remain in any particular plan.

Recommendation 21:

1. After vesting, the employee and employer contributions should be locked-in to the pension system.
2. Portability should be ensured by enacting the recommendations contained in Recommendation 1.

The economic effect of these recommendations will be quite significant for most pension plans. As previously indicated, most employees who terminate from a plan receive only a refund of their own contributions with interest. If these proposals are enacted, every employee who terminates from a plan after two years of service will be entitled to some employer contributions as well.

C. PROTECTION AGAINST INFLATION

C. Protection Against Inflation

While many employers have provided increases on an ad-hoc basis to their pensioners, this practice is by no means universal. With inflation at 8%, the purchasing power of a pension will reduce by 50% in a period of 9 years. At the same time, this inflationary climate has also produced substantially increased investment returns and, very often, these windfall gains have been used to improve benefits for active members or to reduce the plan sponsor's cost.

It is the Commission's view that these " excess interest " returns should be used to improve pensions in payment and deferred pensions. This will raise some difficult practical problems. For example: How is the " excess interest " approach to be applied? What is to be done about plans that are already using part of their excess returns to fund their current level of benefit? To what extent, if any, should these changes be made retroactive?

Recommendation 22:

The Pension Benefits Act should be amended to incorporate the method for protection of pensions against inflation which is outlined in the CAPSA paper - " A Consensus for Pension Reform " and the federal green paper - " Better Pensions for Canadians ". Essentially this requires that all fixed dollar pension benefits be upgraded each year by a factor which is based on the general level of interest rates. CAPSA's specific recommendation was that this factor should be the difference between a " base " rate of 3½% and a " guide " rate equal to the average yield rate in the market on long-term federal government bonds over the most recent five-year period. For benefits which have already accrued, CAPSA recommended a modified " base " rate of 7% which introduced a degree of retroactivity to the proposals.

Some plans have already implemented a formalized approach to inflation protection which, in any year, may not meet the above standard, but, over a period of years, should do so. The Commission feels that it would be counter-productive to disturb such a system.

Recommendation 23:

Those plans where a formalized system is already in place for inflation protection or where a new system is introduced which, over a period of years, will meet the CAPSA standard, should be permitted to continue such an arrangement.

If inflation continues at the current levels, these proposals could have a significant effect on plan costs and, while the inflation trend is currently downward, implementation of this proposal in full could cause some plans to be terminated. The cost of the implementation of these proposals could be tempered by the use of higher base rate than $3\frac{1}{2}\%$.

Voluntary Employer Pension Plan:

The problem of coverage of the workforce is very significant, with only 37% of the Manitoba workforce covered under employer sponsored pension plans.

Recommendation 24:

The concept of a Voluntary Employer Pension Plan should be examined in more detail with respect to the feasibility of options available.

In terms of costs, there would only be costs to those employers who do not have an employer plan (typically small employers) and those who are willing to participate in this plan.

Excerpt from " A Consensus for Pension Reform " report prepared by officials of the Canadian Association of Pension Supervisory Authorities:

Disclosure Requirements

Consensus:

Uniform disclosure requirements should be adopted. The requirements already established in Manitoba, Ontario, Quebec and Saskatchewan should be used as guides. CAPSA will proceed to draft uniform legislation for consideration in each jurisdiction. The following principles should be recognized:

1. Plan members should receive annual statements showing the benefits accruing under the plan, accumulated employee contributions and, where employer contributions are specifically allocated to plan members, such employer contributions, together with other relevant data to enable the member to ascertain his pension entitlement. In defined benefit plans, no allocation of employer contributions need be shown.
2. A statement of accrued rights or benefits should be given on termination of service, disability or death.
3. The information to employees should show the funded ratio of the plan on a going concern basis.
4. The Annual Information Return should be available to employees from the plan administrators, on request.
5. An actuarial balance sheet and income statement should be available to employees from plan administrators, on request.
6. A list of the assets of a plan should be available to plan members from plan administrators, on request.
7. If an audit report is required, it should be available from plan administrators, on request.
8. When a pension plan terminates or is wound up, the termination report, if one has been prepared, should be available to plan members from the plan administrators, on request.

Excerpt Continued:

Rationale:

Employees should have regular information concerning contributions and benefits accruing under a pension plan to permit adequate personal financial planning. Information concerning the funded status of the plan is important to establish that some of the benefits are contingent upon future funding. More specialized information, such as the actuarial balance sheet and list of assets, need only be available on request, since it is likely to be of limited interest.

GLOSSARY OF PENSION TERMS

Pension plan language displays a great variety in terms and usage. Government pension programs have introduced their own specialized terminology, including new or special meanings for old terms. In public discussion it often happens, therefore, that two different terms are used interchangeably; or an expression, though technically correct, is applied in a manner sufficiently unusual to confuse many readers - even, on occasion, the well-informed.

ACCRUED PENSION: Amount of pension credited to a plan member according to service, earnings, etc., up to a given time.

ACTUARIAL ASSUMPTIONS: In an actuarial valuation, a set of estimates of future developments affecting the cost of benefits to be provided under a pension plan (e.g., mortality, salary increases, investment return, employee turnover, retirement ages).

ACTUARIAL EQUIVALENT: Result of a calculation used to reduce or increase the amount of monthly pension payments when taken in a form other than the normal form of benefit - at a different age, or with different survivor conditions, etc. - but representing the same total value over the entire term of the expected payments. For example, a life pension commencing at age 60 may be a lower monthly amount than one starting at age 65 because a greater number of monthly payments are expected; it is said to be the actuarial equivalent of the age 65 pension when the present value is the same.

ACTUARIAL VALUATION: Examination of a pension plan by an actuary to assess the solvency of the plan and determine the level of contributions required to maintain its solvency.

ACTUARY: A professionally trained specialist in the pension and insurance fields. In Canada, full professional recognition requires membership in the Canadian Institute of Actuaries.

AD HOC ADJUSTMENT: Amount added to a pension after retirement, on an irregular basis and not as a result of a prior commitment or contract. To be distinguished from indexing.

ANNUITY: In pension terminology, periodic payments (usually monthly) provided by the terms of a contract for the lifetime of an individual (the annuitant); may be a fixed or varying amount, and may continue for a period after the annuitant's death.

AVERAGE INDUSTRIAL WAGE: The Industrial Composite of Wages and Salaries (weekly) as measured by Statistics Canada and reported in Employment, Earnings and Hours (Cat. 72-002). Usually cited as an annual average.

BENEFICIARY: In a pension plan, a person who, on the death of a plan member or pensioner, may become entitled to a benefit under the plan. (See Survivor benefits, Death benefits).

BENEFIT: Generally, any form of payment to which a person may become entitled under the terms of a plan; often refers specifically to the normal pension provided by the plan formula.

BENEFIT FORMULA: Provision in a pension plan for calculating a member's defined benefit according to years of service, earnings (career or final average), a fixed dollar amount, etc.

BEST EARNINGS FORMULA: A defined benefit formula which applies the unit of benefit credited for each year of service to the member's average earnings for a specified period of highest earnings (e.g., best five of the last ten years of service).

CAREER AVERAGE FORMULA: A defined benefit formula which applies the unit of benefit to earnings of the member in each year of service, and not to final or final average earnings.

CASH WITHDRAWAL: A return of personal pension contributions to a member whose employment is terminated.

CHILD-REARING DROPOUT: Provision in Quebec Pension Plan (and Canada Pension Plan, subject of approval of provinces) under which allowance is made for months in which no (or low) contributions were made while the contributor was raising children.

COMMUTED VALUE: Amount of an immediate lump-sum payment estimated to be equal in value to a future series of payments.

COMPULSORY PLAN: A pension plan which eligible employees must join as a condition of employment.

COMPULSORY RETIREMENT: Provision in a pension plan, collective agreement or employer's rules requiring that employee must retire at a certain age or under other specified conditions.

CONTINUOUS SERVICE: Period during which an employee is continuously employed by the same employer; may be defined in a pension plan (or by law) so as to include certain periods of absence, and service with an associated or predecessor employer. To be distinguished from Credited service.

CONTRIBUTION INTEGRATION: Provision for reducing the required contributions to a pension plan by contributions prescribed in the Canada Pension Plan (or QPP). To be distinguished from treatment of contributions in Step-rate integration.

CONTRIBUTORY PLAN: A pension plan which requires the employee to make contributions by payroll deduction in order to qualify for benefits under the plan.

CREDITED SERVICE: Periods of employment counted in calculating amount of pension; may also be a basis for qualifying for a particular type of benefit. See also: Continuous service.

CURRENT SERVICE: Period of service of an employee after becoming a member of a pension plan. Current service cost usually refers to the cost to benefits credited to members of a plan in a given year.

DEATH BENEFIT: A lump sum (usually), payable from a pension plan to the beneficiary or estate of a member who dies before retirement. May refer to a payment on death after retirement.

DEFERRED PROFIT SHARING PLAN (DPSP): Type of profit sharing plan defined in the Income Tax Act, often used as a defined contribution pension plan. Employee contributions are not deductible from income for tax purposes.

DEFERRED VESTED PENSION (ANNUITY): A specified pension determined at the time of termination of employment or termination of a plan but not payable until some later date, usually normal retirement age. (See Vesting).

DEFINED BENEFIT PLAN: A plan which defines the pension to be provided (based on service, average earnings, etc.) but not the total contributions. If plan is contributory, the rate of employee contributions may be specified, with the employer paying the balance of cost. To be distinguished from defined contribution plan.

DEFINED CONTRIBUTION (MONEY-PURCHASE) PLAN: Plan which defines contributions to be made by employer and employee, but not the benefit formula. Accumulated contributions and interest are used to purchase an annuity for the member. To be distinguished from Defined Benefit plan.

DEPENDENT CHILD'S BENEFIT: Under the Canada Pension Plan (or QPP), a monthly amount payable to each dependent child of a disability pensioner or deceased contributor.

DISABILITY PENSION: Pension payable to an employee permanently incapacitated due to physical or mental disability.

DIVISION OF PENSION CREDITS: Also known as "credit splitting", a provision in the Canada Pension Plan (and QPP) whereby one spouse, on dissolution of marriage, may obtain an equal division of pension credits earned by one or both partners during the period of marriage.

EARLY RETIREMENT: Provision in a pension plan for retirement earlier than the normal pension age. The amount of pension credited under the plan formula may be reduced according to the member's attained age; or an unreduced pension may be payable if a specified service condition (e.g., 30 years) has been met.

EARNINGS-RELATED PLAN: Any plan with a benefit formula based on earnings (as opposed to a Flat benefit plan). Includes Career average and Final average plans.

EARNINGS TEST: A form of retirement test in which eligibility for a specified pension or supplement is determined on the basis of a person's earnings during a certain period.

ELIGIBILITY REQUIREMENT: A condition such as age or length of service that must be met before an employee is permitted or required to join a pension plan. (Term may refer to eligibility for certain benefits).

EMPLOYEE-PAY-ALL-PLAN: Any pension or retirement savings plan that is organized for or by a group of employees but is not financed by an employer.

EMPLOYMENT PENSION PLAN: A pension plan offered by an employer or supported by a group of employers for the benefit of employees. As used in this report, the term includes plans covering employees of governments and public agencies but does not include the Canada Pension Plan or other public programs.

EXCESS EARNINGS: In discussion of inflation, earnings from investments of a pension fund in excess of an assumed or expected rate of return.

EXPERIENCE DEFICIENCY: An unfunded liability, revealed by an actuarial review of a pension plan, resulting from a difference between actual experience (investment earnings, salary levels, etc.) and assumptions made at the time of a previous valuation.

FINAL AVERAGE (EARNINGS) FORMULA: A defined benefit formula which applies the unit of benefit credited for each year of service to the member's average earnings for a specified number of years just before retirement.

FINAL EARNINGS FORMULA: A defined benefit formula which applies the unit of benefit credited for each year of service to the member's final salary rate or annual earnings immediately before retirement.

FINAL PAY PLAN: Term commonly used for any pension plan whose benefits are based on earnings in a member's last years of service.

FLAT BENEFIT FORMULA: A defined benefit formula which specifies a dollar amount of pension to be credited for each year of service. Term should be distinguished from Flat rate pension.

FLAT RATE PENSION: A defined benefit expressed as a dollar amount of monthly pension, not related to service or earnings, but paid on retirement after meeting certain qualifying conditions. See for example, Old Age Security.

FULLY FUNDED: Term describing a plan which, at a given time, has sufficient assets to provide for all pensions and other benefits in respect of service up to that date.

FUNDING: Systematic payments into a fund which, with investment earnings, are expected to provide for all pensions and other benefits as they become payable.

GOING CONCERN BASIS: Refers to the assumption, when making an actuarial valuation, that the pension plan will continue in operation indefinitely.

GOVERNMENT PROGRAM: Any legislative program under which benefits (pensions, income supplements, etc.) are provided by a government in its role as government rather than its role as an employer; e.g., Old Age Security, Canada Pension Plan, Guaranteed Income Supplement.

GUARANTEED INCOME SUPPLEMENT (GIS): A monthly payment under the federal Old Age Security Act to needy recipients of the OAS pension, based on a guaranteed minimum income amount. See: Old Age Security;
Spouse's Allowance.

INCOME SUPPLEMENT: A regular payment made to a person, usually on the basis of need or other special circumstances, in addition to other income such as earnings or pensions.

INDEXING: Provision for periodically adjusting a benefit amount (usually after retirement) according to a formula based on a recognized index of price or wage levels, e.g., the Consumer Price Index. To be distinguished from Ad Hoc Adjustment.

INTEGRATION: Provision in a pension plan which relates plan contributions and/or benefits to those of a government pension program, e.g., Canada Pension Plan. Not to be confused with Level income option.

JOINT ADMINISTRATION: Provision for a union-management committee or board to assume supervisory functions relating to a pension plan. May include provisions for final and binding settlement of disputes.

JOINT AND SURVIVOR ANNUITY: An annuity payable until the death of the retired employee, and continuing thereafter to the surviving widow or widower until that person's death. Commonly provided as an option at the time of retirement; may be available as a level amount or with reduction when one annuitant dies. See also: Survivor Benefit.

LEVEL INCOME OPTION: Also referred to as a "notched" option: provision for employee, at time of retirement, to elect an increased pension, subject to a reduction by a specified amount when the retiree becomes eligible for pension under a government program. To be distinguished from integration.

LOCKING-IN: Requirement under legislation that pension contributions made after a certain date cannot be withdrawn or otherwise forfeited if the employee on termination of employment has attained a certain age or has completed a certain period of service or plan membership. See Vesting.

MULTI-EMPLOYER PLAN: A pension plan covering employees of more than one employer, usually by agreement with a union or group of unions.

NON-CONTRIBUTORY PLAN: A pension plan in which all required contributions are made by the employer.

OFFSET: Generally, the amount of one type of benefit used to reduce the amount of another benefit payable to a person, e.g., a disability pension where disability insurance benefits are provided by the same employer. For reference to government pension programs, see Offset integration.

OFFSET INTEGRATION: Provision in a pension plan for directly reducing a plan benefit by all or a portion of pensions payable to the individual from a government program. See also: Step-rate integration; Contribution integration.

OLD AGE PENSIONS: Usually refers to pensions formerly paid under a federal statute to aged residents who could qualify under a means test. (Program replaced in 1952 by Old Age Security Act).

OLD AGE SECURITY (OAS): Federal program providing a universal, flat rate pension to all residents aged 65 and over, regardless of need; also provides income-tested supplements: see Guaranteed Income Supplement, Spouse's Allowance.

PAY-AS-YOU-GO PLAN: Term used for benefits that are not funded except as and when they are paid to individuals; i.e., payment is made from current revenue or other sources outside the plan as such.

PENSIONABLE EARNINGS: Defined portion of an individual's total earnings, used in calculating pension entitlement (e.g., excluding certain bonuses).

PENSION BENEFITS LEGISLATION: Laws and regulations under which employment pension plans must be registered and meet prescribed standards relating to vesting, solvency, investments, etc.

PENSION BOARD (COMMITTEE): Group of persons designated according to the terms of a pension plan to oversee various administrative functions. Members may be trustees of the plan.

PENSION COMMISSION OF MANITOBA: Commission responsible for administering the Pension Benefits Act.

PLAN TERMINATION: Discontinuance of an employment pension plan, voluntary or involuntary (e.g., as in bankruptcy); wind-up procedure regulated by pension benefits legislation.

PORTABILITY: Extent to which an individual is provided on retirement with pension income which recognizes all periods of employment with various employers. See also: Vesting.

PRIORITIES (PLAN TERMINATION): A set of rules, in an employment pension plan or legislation, under which the assets of a plan that is discontinued are allocated among members and beneficiaries to provide as far as possible for all accrued benefits.

PRIVATE SECTOR PLAN: An employment pension plan offered by an employer or by employers and unions (multi-employer plan) in the private sector.

PROVISIONALLY FUNDED: In pension benefits legislation, term used to describe a pension plan that is not fully funded but is "solvent" - i.e., current service costs are being met year by year, and special payments are being made to amortize all unfunded liabilities.

PUBLIC PENSION PROGRAM (PLAN): Also referred to as "government program". A legislative program providing pension benefits from the government in its role as a government rather than its role as an employer; e.g., Old Age Security, Canada Pension Plan. To be distinguished from Public Sector Plan.

PUBLIC SECTOR PLAN: An employment pension plan offered by an employer in the public sector, covering civil servants, teachers, municipal employees, etc.

REGISTERED PENSION PLAN: An employment pension plan accepted for registration for tax purposes under the Income Tax Act, and/or for registration under applicable pension benefits legislation.

REGISTERED RETIREMENT INCOME FUND (RRIF): Form of investment vehicle permitted under the Income Tax Act for funds an individual has accumulated in a Registered Retirement Savings Plan that has "matured".

REGISTERED RETIREMENT SAVINGS PLAN (RRSP): A personal retirement savings plan, defined in the Income Tax Act, under which tax is deferred on contributions and investment income until received as annuity payments.

REMARRIAGE CLAUSE: Provision for a surviving spouse's pension to be discontinued if he or she remarries; may include provision for renewal of payments if that marriage is later terminated.

RETIRED LIVES FUND: In a trustee pension plan, a segregated group of assets representing the value of all benefits for those who have retired under the plan; excess earnings of these assets may be available to increase the amounts of monthly pension payable.

SOCIAL SECURITY: Term used to refer to a system of government programs providing for income security of individuals, especially the aged, disabled, etc. In Canada, the term as applied to the elderly usually includes Old Age Security, income supplements (federal and provincial), the Canada and Quebec Pension Plans; may include other income support systems.

SOLVENCY: In a pension plan, the ability of the plan to meet its present and future obligations; the adequacy of provisions for funding.

SPOUSE'S ALLOWANCE: Under the Old Age Security Act, a monthly payment, based on family income, payable to the spouse aged 60 to 65 of an OAS pensioner.

STACKING: Term sometimes used for a pension design in which there is no integration: that is, plan contributions and benefits are not related to those in any government pension program.

STEP-RATE INTEGRATION: Provision in a pension plan for different rates of contributions and benefit accrual in respect of an employee's earnings below and above the YMPE (earnings ceiling) of the Canada/Quebec Pension Plan.

SURVIVING SPOUSE'S PENSION: A monthly benefit payable under a pension plan to the surviving spouse of a deceased employee or pensioner; usually refers to a benefit other than payments under a guaranteed annuity or joint and survivor annuity.

SURVIVOR BENEFIT: Generally, any benefit payable under a pension plan to the surviving spouse or dependent of a plan member who dies before or after retirement.

TAX CREDIT: Provision for a reduction of income tax payable (not a deduction from taxable income) by an amount of other taxes payable or a portion of housing or other expenses of the taxpayer; e.g., Ontario Tax Credits. Tax credit is said to be "refundable" if it is payable to a person with no taxable income.

TAX-DEDUCTIBLE: Refers to a type or amount of income which may be deducted from a person's total income in computing net or taxable income; e.g., registered pension plan contributions; pension income (up to \$1,000 per year).

TAX DEFERRAL: Provision in the Income Tax Act whereby certain pension and similar contributions are tax-deductible and employer contributions and investment income are not included in a member's current taxable income; but benefit payments are considered income for tax purposes in the year in which they are received.

TAX SHELTER: Generally, any savings arrangement entitled to tax deferral and therefore involving the probability that payments when received by the individual will be taxable at a lower rate than would apply in the year the income was first received or credited.

TERMINATION OF EMPLOYMENT: Severance of the employment relationship for any reason other than death or retirement.

TRUSTEED PENSION PLAN: An employment pension plan whose funds are held and invested by trustees, and the plan sponsor is responsible for making sufficient contributions to maintain the plan's solvency. Benefits are not insured except to the extent annuities are purchased.

UNFUNDED LIABILITY (UNFUNDED ACTUARIAL LIABILITY): Generally, any amount by which the assets a pension plan are less than its liabilities. An initial unfunded liability exists when benefits are created in respect of prior service (e.g.) and not provided for in current service contributions.

UNION PENSION PLAN: Plan sponsored by a trade union; usually refers to a dues-paid plan (see definition) but may mean a plan financed by employer contributions (see Multi-employer plan).

UNION BENEFIT FORMULA: Any defined benefit formula providing a benefit credit expressed as a percentage of a member's earnings for each year of service. (To be distinguished from flat benefit formula).

VARIABLE ANNUITY: A pension whose amount varies according to the market value of the fund, usually invested in common stocks. In theory, this feature may compensate the retiree for the effects of inflation.

VESTING: The right of an employee, on termination of employment, to part or all of his or her accrued pension; usually requires Locking-in of employee's contributions. Vesting is usually in the form of a deferred annuity commencing at retirement age. Vesting is said to be contingent or conditional if employee has the option of cash withdrawal. Statutory vesting occurs when employee meets the age and/or service conditions set out in pension benefits legislation (in Manitoba currently, age 45 and 10 years' service or plan membership) and applies to benefits accrued after a specified date (July 1, 1976 in Manitoba). Cash vesting is a return of both employer and employee contributions if not restricted by statutory vesting.

WAITING PERIOD: Period of service with an employer before an employee fulfills eligibility requirements for membership in a pension plan.

YEAR'S MAXIMUM PENSIONABLE EARNINGS (YMPE): Term used in Canada Pension, often referred to as the earnings ceiling: the maximum amount of annual earnings from employment on which CPP contributions and benefits are calculated. YMPE is changed each year according to a formula based on average wage levels.